MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1 2022/2023 (TERM ID 2210)

BFN 3104 CORPORATE FINANCIAL STRATEGIES

18 February 2023
9.00am-11.00am
(2 Hours)

INSTRUCTIONS TO STUDENTS

1. This question paper consists of FIVE (5) pages (including this cover page).
2. Answer ALL questions.
3. Please write all your answers in the **Answer Booklet** provided.

Question 1 (50 marks)

Read the case of Air Asia (refer to the attachment) and answer the following questions

a. Briefly explain stages of business life cycle (BLC). (6 marks)

b. Based on your answer in (a), What is Air Asia's position in the business life cycle (BLC)? Justify your answer. (3 marks)

c. Discuss the fundamental characteristics of business life cycle and its financial strategies related to financial risk, business risk, funding, dividend, shareholders' return and share price for Air Asia. (12 marks)

d. The expansion plan requires huge cash injection. What are relevant financial strategies for Air Asia expansion? (4 marks)

e. Air Asia has identified the following countries for business expansion:-

- Project J: Destination Japan. Initial investment RM320 million. Expected cash flow of RM180 million at year 1 and RM250 million at year 2. The required rate of return is 10%.
- Project K: Destination Korea. Initial investment RM 170 million. Expected cash flow of RM 150 million at year 1 and RM 150 million at year 2. The required rate of return is 12%.
- Project T: Destination Turkey. Initial investment RM 200 million. Expected cash flow of RM160 million at year 1 and RM 190 million at year 2. The required rate of return is 15%.

Which project should you advice? Explain your answer using Net Present Value analysis (NPV). (12 marks)

f. What is capital rationing? (4 marks)

g. Air Asia's Board of Directors has approved budget of RM500 million for the expansion plan. Based on your NPV analysis, which project/s will increase shareholders value? (4 marks)

h. In the current economic uncertainty and high inflation, is it viable for Air Asia to expand its business? (5 marks)

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Question 2 (25 marks)

a. Explain **three** (3) post-defense takeover (M&A) strategies. (9 marks)

b. Batik Airlines (BA) has shown interest to takeover Malindo Airlines (MA). The acquisition will cost BA RM250 million. BA plans to sell MA at the end of 5 years. The projected incremental after-tax cash flow stream that MA expects to realize from the acquisition (which reflects the anticipated operating improvements) is for years 1 through 5 as follows: RM70 million, RM50 million, RM40 million, RM60 million, and RM60 million. In addition, the projected after-tax proceeds from selling MA at the end of 5 years amount to RM290 million.

I. Explain the rationale of the above takeover. (5 marks)

ii. Calculate the NPV of the acquisition, assuming a 10 percent cost of capital. (8 marks)

iii. Is the above takeover financially viable? (3 marks)

Question 3 (25 marks)

a. Briefly explain the term financial distress. (3 marks)

b. Explain **three** (3) signs of financial distress (9 marks)

c. Discuss whether liquidation is likely be more common for aviation industry? (4 marks)

d. Malindo Airlines has an option to reorganize, and the following future cash flows are expected:

Year	1	2	3	4	5
Cash Flow in RM million	40	40	50	60	80

The appropriate discount rate is 10 percent. The liquidation value of the firm is RM200 million.

i. What is the reorganization value? (6 marks)

ii. Should Malindo Airlines decide to reorganize or liquidate? (3 marks)

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CASE ANALYSIS

Malaysia's AirAsia X adds 7 new routes; Asean air travel to see V-shaped comeback: Capital A

WEDNESDAY, JUNE 15, 2022 - 20:19

Source: https://www.businesstimes.com.sg/asean-business/malaysias-airasia-x-adds-7-new-routes-asean-air-travel-to-see-v-shaped-comeback

Kuala Lumpur on June 15, 2022.

AIR travel in South-east Asia is likely to see a V-shaped rebound in the coming months, a top executive from Malaysian budget carrier AirAsia's parent company said on Wednesday (June 15).

Capital A - the company formerly known as the AirAsia Group - has big plans to expand the capacity of its aviation business. It wants to get more planes back in the skies by the end of this year, while long-haul affiliate AirAsia X will add 7 new routes this year, including from the Malaysian capital Kuala Lumpur to Dubai, Istanbul and London.

"We will see a V-shaped comeback," said Colin Currie, the president (commercial) of Capital A, at a media briefing. "We really do see that demand from our customers who want to travel, and we're very optimistic."

Before the pandemic struck in early 2020, Capital A had about 200 aircraft in operation. As of the fourth quarter of 2021, this number stood at 178 and the aim is to bring that figure up to 202 by the end of this year. AirAsia X has 6 Airbus planes in service, and the plan is to have 15 jets in operation by year's end.

AirAsia X chief executive officer Benyamin Ismail said the carrier will focus on medium-haul flights that have a better chance of commercial viability as part of the broader strategy to return to profit. He noted that Airasia X will need 2 years' time to return to pre-pandemic capacity.

At the briefing, Currie also noted that the company's growing aviation segment will complement Capital A's Teleport business, to enable the logistics arm to utilise the belly space of planes to boost the group's revenue.

Last month, Capital A reported a net loss of RM1.08 billion (S$340.2 million) for the quarter ended March 31, which was a 10.35 per cent larger loss compared with the same quarter in 2021. Revenue for the first 3 months of 2022 stood at RM812 million, an increase of 153 per cent compared to a year ago, largely due to the reopening of international borders and a significant pick-up in air travel.

Giving an update on the airasia Super App, Currie said the digital product, which e-hailing, food and express delivery services, is gaining momentum with over 14 million active users as of March 31 this year. The projection is for the number of users to reach 21 million by December.

"We just hit 1 million rides in April this year, after 8 months of operation. We believe that (e-hailing service) Airasia Ride is now a firm competitor to take market share from Grab in the future," he added.

End of Case